

Message Text

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ORIGIN EB-07

INFO OCT-01 ARA-06 EUR-12 ISO-00 AGR-05 COME-00 TRSE-00

XMB-02 OPIC-03 AID-05 SSO-00 NSCE-00 USIE-00 INRE-00

CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05

PA-01 PRS-01 SP-02 SS-15 /081 R

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APPROVED BY EB:JLKATZ

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FM SECSTATE WASHDC

TO AMEMBASSY BRASILIA IMMEDIATE

AMEMBASSY SAN SALVADOR IMMEDIATE

INFO AMEMBASSY LONDON IMMEDIATE

AMCONSUL RIO DE JANEIRO IMMEDIATE

AMEMBASSY BOGOTA IMMEDIATE

AMCONSUL SAO PAULO IMMEDIATE

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E.O. 11652: N/A

TAGS: EAGR, ETRD

SUBJECT: BRAZILIAN PURCHASE OF EL SALVADOR COFFEE

REF: BRASILIA 06396

1. THE DEPARTMENT IS CONCERNED OVER REPORTS (REFTEL) OF
FURTHER ATTEMPTS BY THE IBC TO PURCHASE COFFEE THAT
WOULD OTHERWISE BE DESTINED FOR CONSUMER MARKETS. LIKE
PREVIOUS RUMORS OF BRAZILIAN ATTEMPTS TO PURCHASE
ANGOLAN COFFEE, THIS NEWS HAS HAD A SUBSTANTIAL IMPACT
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ON COFFEE MARKETS. THE IBC'S REPORTED ACTION IS

PARTICULARLY UNTIMELY AS CONGRESSIONAL HEARINGS ON THE NEW INTERNATIONAL COFFEE AGREEMENT(ICA) ARE SCHEDULED FOR TUESDAY, JULY 27.

2. WE SEE NO COMMERCIAL REASON FOR THE PROPOSED PURCHASE FOR EITHER BRAZIL OR EL SALVADOR. THE IBC HOLDS SUFFICIENT STOCKS TO ASSURE THE AVAILABILITY OF COFFEE FOR DOMESTIC CONSUMPTION. EL SALVADOR WOULD FORGO THE OPPORTUNITY TO IMPROVE ITS EXPORT PERFORMANCE TO IMPORTING MEMBER MARKETS AND ALSO ITS QUOTA IN THE NEW ICA. IN ABSENCE OF NORMAL COMMERCIAL ADVANTAGES, WE CAN ONLY CONCLUDE THAT THE MOTIVE OF THE ALLEGED PURCHASE IS THE ONE REPORTED IN THE ESTADO DE SAO PAULO I.E., TO ARTIFICIALLY SUSTAIN HIGH COFFEE PRICES.

3. WE WOULD CONSIDER SUCH ACTION INCOMPATIBLE WITH THE SPIRIT OF COOPERATION EMBODIED IN THE NEW INTERNATIONAL COFFEE AGREEMENT. GOVERNMENT ACTIONS OUTSIDE THE AGREEMENT,,DESIGNED TO ARTIFICIALLY INCREASE COFFEE PRICES, PARTICULARLY DURING A PERIOD WHEN PRICES ARE HIGHLY REMUNERATIVE TO PRODUCERS, WOULD CONFLICT WITH THE STATED OBJECTIVES AND UNDERTAKINGS IN THE NEW AGREEMENT. IF SUCH ACTION IS CONFIRMED THE US WILL CONSIDER RAISING THESE POINTS AT THE COFFEE COUNCIL SESSION IN SEPTEMBER.

4. ACTION REQUESTED: EMBASSIES SHOULD CALL UPON APPROPRIATE OFFICIALS AT FOREIGN MINISTRIES AND COFFEE INSTITUTES TO EXPRESS OUR CONCERN OVER REPORTS OF THIS ACTION. EMBASSIES MAY DRAW ON POINTS MADE ABOVE. ROBINSON

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